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SEC.

DIRECTOR OF CENTRAL INTELLIGENCE
Security Committee

18 April 1978

MEMORANDUM FOR: Mr.
Mr.
Mr.
Col.
Col.



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FROM: Robert W. Gambino
Acting Chairman

SUBJECT: Senate Select Committee on Intelligence (SSCI)
Report, "U.S. Intelligence Analysis and the
Oil Issue, 1973-1974"

1. On 21-25 December 1977, The New York Times ran a series of articles authored by Seymour M. Hersh, which referenced a classified Senate Select Committee on Intelligence (SSCI) staff study on analysis of oil policy issues further identified in subject. A review of these articles (see Attachment A) indicated that Mr. Hersh either had direct access to the classified Committee report or was thoroughly briefed on the report by someone intimately familiar with its contents and related intelligence data.

2. As a result of this disclosure, Senator Daniel K. Inouye, former Chairman of the SSCI, initiated an investigation by the Senate Select Committee on Ethics for possible violation of the provisions of Senate Resolution 400. Damage assessments were prepared by the Central Intelligence Agency and the National Security Agency (see Attachment B) and forwarded to both the SSCI and the Committee on Ethics.

3. The investigation thus far conducted has revealed that The New York Times articles contain a number of points which are incorrectly attributed to the SSCI classified oil study. These include a reference to CIA "agents in place inside the Saudi government," the claim that NSA "was able to report...about conversations between King Faisal and President Sadat," the more specific claim that NSA reported on a Saudi-Egyptian decision in August 1973 for Egypt to go to war with Israel with the help of \$600 million in Saudi aid, and a reference to the contents of intelligence provided to the White House. It has been determined that the SSCI

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Senate Report Criticizes U.S. Intelligence on Oil Embargo

By SEYMOUR M. HERSH

Special to The New York Times

WASHINGTON, Dec. 20—A Senate Intelligence subcommittee has concluded that some newspapers and magazines performed as well as or better than United States intelligence analysts did in predicting and evaluating Saudi Arabia's role in the oil embargo imposed in October 1973 by Arab nations.

The intelligence failure was all the more remarkable, the subcommittee said, because both the Central Intelligence Agency and the National Security Agency had collected specific information about the Saudi intentions in the months before the embargo. However, that information was ignored, the subcommittee said, by high-level Government analysts responsible for preparing the final intelligence reports provided to the White House and other agencies.

During the embargo the flow of Arab oil to the United States was cut off and the Arab-dominated Organization of Petroleum Exporting Countries increased the price of oil by 400 percent. The increase disrupted economies at the time and continues to have a profound impact throughout the world. Oil ministers from the OPEC nations began a series of meetings today in Venezuela to consider oil prices for 1978.

Report Still Classified

At the time of the embargo, Saudi Arabia was supplying 600,000 of the 1.1 million barrels of crude oil that the United States was importing daily from the Middle East, far more than any other Arab country.

The intelligence failures regarding the oil embargo were depicted in a 66-page report, still heavily classified, that was prepared by the Senate Intelligence Subcommittee on Intelligence Collection, Production and Quality. Some senators and their senior staff assistants were permitted to read a typewritten copy of the document earlier this year.

Details of the subcommittee's report were obtained by The New York Times and, after some discussion, the Senate's Select Committee on Intelligence decided to release an abbreviated and censored summary of the report.

Three Publications Cited

The subcommittee, which is headed by Senator Adlai E. Stevenson 3d, Democrat of Illinois, is now investigating the quality of intelligence reporting regarding the development of Soviet strategic weapons, China, terrorism and the recent political developments in Portugal.

In its principal finding, the subcommittee report made available this week concluded that on the issue of the use of oil as a political weapon, "public sources reported more consistently on changing intentions of the Saudis over the period from April to August 1973 than did the intelligence community."

"Although some pieces of the finished intelligence assessed the ongoing shift in Saudi attitudes," the report added, "most of the intelligence community's reporting did not do so. A policymaker could easily have read this reporting without sensing the importance of Saudi developments."

The report cited The Petroleum Intelligence Weekly, The London Financial Times and The Wall Street Journal as being among the specialized publications that were at least as reliable and accurate in assessing the Middle Eastern oil situation as the intelligence community.

Asked for comment today, a spokesman for the C.I.A. said, "Officially, we have no comment."

But, in a footnote, the report said that the agency had specifically disagreed "with the report's conclusions on the superior performance of public sources."

Copies of the report, the subcommittee said, were circulated earlier to the various intelligence agencies for comment and amplification.

One conclusion of the report was that the intelligence community's final product, an analytical report for Presidential use, often did not reflect all the intelligence that was available.

Analysts throughout the intelligence community, the report said, "frequently regard embassy reporting as their principal overseas source" and thus frequently exclude other intelligence information.

Secondary Information

"When this occurs," the report said, "it means that information derived from other sources, for which a costly and complex apparatus exists, is frequently relegated to secondary information, if it is used at all."

The censored summary of the subcommittee report did not include any mention of the agency involved or the type of intelligence that was ignored, but other sources asserted that the original 66-page report said that both the C.I.A. and the N.S.A. had developed first-hand raw data about Saudi intentions.

The original report, The Times's sources said, especially praised the N.S.A. for its ability to eavesdrop and in other ways to pick up "most specific" advance information about the Saudis' plans to begin using oil as a political weapon.

The N.S.A. was able to report in May and August 1973 about meetings and conversations between King Faisal of Saudi Arabia, who was later assassinated, and President Anwar el-Sadat of Egypt, the sources said.

After the meeting in August, the sources said, the N.S.A. reported that President Sadat and King Faisal had agreed to go to war with Israel again, with King Faisal providing \$500 million to Egypt for the war chest. The N.S.A. also reported that King Faisal and Mr. Sadat had agreed to use oil as a political weapon in connection with the war. The Times's sources quoted the uncensored subcommittee report as disclosing

The N.S.A. interceptions cited by the subcommittee report also raised the possibility, apparently not dealt with in the report, that the intelligence community had also disregarded advance information about the 1973 war between Israel and Egypt. It could not be learned whether that subject was also being investigated by the Senate Intelligence Committee.

The Times's sources asserted that the original subcommittee report said that the C.I.A. had agents in place inside the Saudi Government who were able to provide intelligence about the intent to use oil as a political weapon. The agents were directed and controlled by the clandestine services of the C.I.A.

In an attempt to explain why such first hand N.S.A. and C.I.A. intelligence was ignored, the subcommittee report said that embassy reporting seemed to be favored by analysts preparing final assessments in part because of "the form of State Department reporting."

"State's cables are consistently resented in coherent paragraphs as concise summaries of events or developments and rarely exceed two or three pages," the subcommittee report said. "By comparison, the C.I.A.'s clandestine service reports are often far more detailed and require integration and assessment by the analysts."

Similarly, the report added, "other forms of intelligence" — an apparent reference to N.S.A. information — also "require sustained, independent evaluations by analysts."

'Captives of Limitations'

The analysts, by relying on the reporting of State Department officers overseas, became "captives of the embassies' own limitations," the report said.

"Analysts stressed the continuation of the status quo in Saudi policy toward the United States," the report said.

Another factor cited by the report involved what was called a chronic problem within the C.I.A.: intra-agency competition between the clandestine services, as an operational arm, and the Directorate for Intelligence, the arm responsible for analyzing and compiling assessments.

The report said that the C.I.A. analysts had insisted on verifying the credibility of the clandestine services' agents inside Saudi Arabia before utilizing the intelligence provided, and the clandestine services had insisted on the need to protect their sources.

These factors, among others, the report said, "impeded the full use of clandestine data."

U.S. Experts Fear Saudi Troubles In the Oilfields May Limit Output

By SEYMOUR M. HERSH

A number of leading energy experts in Washington now believe that the Saudi Arabian oilfields, the richest in the world, have been disrupted by a series of technical and managerial problems that may curtail the amount of oil that can be pumped.

These experts, who include senior members of the Carter Administration and the United States intelligence community, said in a series of recent interviews that there is evidence that the Saudi oilfields have been seriously damaged by salt-water corrosion in the pumps and pipelines as well as by what some officials characterized as chronic drops in oilfield reservoir pressure.

Oil Glut Diminishes Concern

Although the information remains fragmentary, concern over the condition of the Saudi oilfields is serious enough for James R. Schlesinger, the Secretary of Energy, to have relayed it to President Carter at a meeting last month.

One senior Government energy expert acknowledged that the current worldwide glut of oil has diminished immediate concern about the condition of the Saudi oilfields, which contain 25 percent of the world's oil reserves. "They're pumping now all they can sell," the expert said, "but how much higher they can go and for how long we don't know."

All of those interviewed repeatedly cautioned that the information now available was considered highly sensitive, in part because of the close United States-Saudi Arabian relationship, but also because of the immense implications to the world's economic and energy planning if the Saudis do not, in fact, have the capacity to increase oil production at will to meet the demand for oil.

It is widely acknowledged that the strength of the Saudis' influence inside the Organization of Petroleum Exporting Countries (OPEC) rests in their vast oil reserves and in the implicit threat that the Saudis, if displeased, could increase their oil production at will, flooding the world's markets, and forcing down the price of oil for all OPEC members.

A number of American energy officials readily conceded that the exact nature, seriousness or persistency of the Saudi problems was not known. Nor did they know whether, in fact, other member nations of OPEC were at all aware of Saudi problems.

There is no clear-cut evidence on

whether the Saudi problems are more than transitory. A key point, according to one former official of the Arabian American Oil Company (Aramco) who acknowledged that technical problems existed is that "the reserves are there," a reference to Saudi Arabia's estimated 170 billion barrels in proved oil reserves. End Insert A—putting beginning...

Last May, officials of the Arabian American Oil Company which produces virtually all of the Saudi oil announced plans to increase its capability by 50 percent to 16 million barrels of oil per day by 1982. Many leading energy experts have estimated that by the mid-1980's the world will need to obtain 14 to 16 million barrels of oil a day from Saudi Arabia or face a shortage.

Early this year, when other OPEC nations were seeking higher oil prices than the Saudis wanted, the Saudi Government announced that it would increase its production to 9.8 million barrels a day by the end of March and tentatively scheduled a further increase to 11.8 million barrels a day, beginning Jan. 1.

These moves have been conventionally perceived as signs that the Saudis had largely achieved their goal of holding down OPEC prices. The concern now being expressed by American energy experts raises a question, however, as to whether the Saudis could have met the previously announced production goals without undermining some of their oilfields.

When reservoir pressure drops in an oilfield, more water has to be pumped in. If the field is continuously worked with reduced pressure, this could affect its ultimate recovery—that is, how much oil can be obtained.

Asked about the conditions of the Saudi oilfields, James V. Knight, the Washington-based spokesman for Aramco, said, "With production at 8.5 million barrels per day, there is absolutely no technical problems in reaching and sustaining that level or, in fact, in going beyond that."

Asked in detail about Aramco's management of the Saudi oilfields, Mr. Knight said, "There are no managerial problems. In fact, Aramco is an exceptionally strong and able organization."

Aramco is a consortium of the Standard Oil Company of California; Texaco Inc.; the Exxon Corporation and the Mobil Corporation.

Complicating the overall issue is an as yet unresolved split between the Central Intelligence Agency and the National Security Agency over the amount of oil exported by the Saudi Arabians.

Officials with first-hand knowledge have told The Times that the CIA's reporting closely reflects the official oil production numbers released by the

Saudi Government. The N.S.A., however, which bases its information on electronic eavesdropping, among other sources, has consistently produced evidence indicating that the Saudis were exporting as many as 1.5 million fewer barrels a day than publicly reported, the sources said.

One highly reliable source said that the CIA's statistics showed, for example, that the Saudis were exporting an average of 10 million barrels a day for certain days in the first three months of 1977. During that same time period, however, the source said, the N.S.A. reported that the Saudis never produced more than 8.5 million barrels a day.

Another source, who has had direct access to the intelligence agencies' materials, said that two Aramco officials had privately provided information early this year stating that the Saudis were overstating production by 400,000 to 500,000 barrels of oil a day.

Industry Sources Skeptical

Oil industry sources, however, expressed skepticism that the Saudi export figures could be appreciably inflated without the practice becoming known within the industry.

Officially, a Carter Administration spokesman said that the N.S.A. "does not make estimates and does not have information which is in conflict" with other intelligence agencies' assessments.

But investigators for the Senate Foreign Relations Subcommittee on Foreign Economic Policy are known to have received direct evidence of the sharp reporting differences between the N.S.A. and CIA, and have yet to resolve those differences.

Senator Frank Church, Democrat of Idaho, who is chairman of the subcommittee, expressed doubt in a telephone interview this week on the reliability of the CIA's reporting on the Saudis' oil production.

"We found that the CIA was reporting facts that they wanted to find," said Mr. Church. In Saudi Arabia, he added, the CIA "tended to accept a level of production that they'd hoped for without weighing other information."

His subcommittee, Mr. Church added, will continue to investigate the intelligence dispute.

The staff of Mr. Church's subcommittee, then headed by Jerome I. Levinson, the counsel, initially became concerned over the technical condition of the Saudi oilfields during closed hearings in early 1974 that subsequently were published. One witness, a key Aramco official, testified that the October 1973 oil embargo by Saudi Arabia came at a propitious time because Aramco was then in the process of deciding whether to cut back production because of dwindling reservoir pressure or to risk permanent damage to the oilfields by continuing to pump.

'Taken Off the Hook'

The witness, William W. Messick, was quoted in the hearings as saying that "we were taken off the hook" by the embargo.

In his testimony, Mr. Messick, who has since left Aramco, acknowledged that among the fields experiencing serious problems was the Shadgum area of the Ghawar field, which was producing more than one-third of Saudi Arabia's oil at the time. The Uthmanyah area in the Ghawar field also had pressure problems. Mr. Messick was quoted as telling subcommittee investigators.

Mr. Levinson and other subcommittee staff members became concerned early in 1977 when the Saudis announced that oilfield production had been held up due to extremely poor weather in the area.

A few months earlier the Saudis, with the support of the United States, had managed to prevent a 10 percent rise in worldwide oil prices that was sought by OPEC.

When the Saudis announced the subsequent reductions in production, the Church subcommittee began to investigate to determine whether the Arab nation, with its strong anti-Israel policies, was in the position of winning broad favor in the United States by publicly insisting on minimal price hikes while at the same time secretly reducing production to keep the oil prices high and also dampen potential frictions within OPEC.

Contradictions Alleged

Instead, subcommittee sources said, the investigators discovered the contradictions between the C.I.A. and N.S.A reports on Saudi outputs. They also were privately informed by a Government official that the Saudis were having technical problems in the fields.

They further concluded that the poor weather alone was not enough justification for the drop in oil production, which reportedly was a million barrels a day less than had been projected. "The weather partly was a reason and partly was an excuse" for the falloff, one source said.

The subcommittee's concern at the

time, one official recalled, was: "If the Saudis do have technical problems and they can't pump much more oil, then the whole premise of United States planning in regard to future Saudi production has to be changed."

"How can you go on making international policy if you don't know what the facts are?" the subcommittee official asked rhetorically.

In The Times's interviews, a number of well-informed officials noted that the Saudi Arabian Government has become disenchanted with what was characterized as serious inefficiencies in the Aramco management of the oilfields.

Fire in May

One Carter Administration official said that the Aramco officials had been surprised to learn the extent of corrosion and other problems after a fire in May at one of the large oilfields south of Dhahran. Before the fire, the official said, the Saudis had been generating more than 10 million barrels of oil per day. Since then, he said, output has been reduced at least 2 million barrels a day.

"They would have to do a lot of repair to get back up there"—to more than 10 million barrels of oil a day, the official said. "The question is: 'What have they done in the meantime to enable them to go up? I just don't know.'"

A Carter Administration energy aide acknowledged that he was aware that the Church subcommittee was investigating to determine whether the Saudis had deliberately manipulated American public opinion early this year.

What actually happened, the Administration official surmised, is that "the Saudis ordered Aramco to go all out and they found that some infrastructure [in the pipelines] was damaged. They were just as surprised as I was," the official said of the Saudis and the Aramco officials, "when they turned on the valves and it didn't work."

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